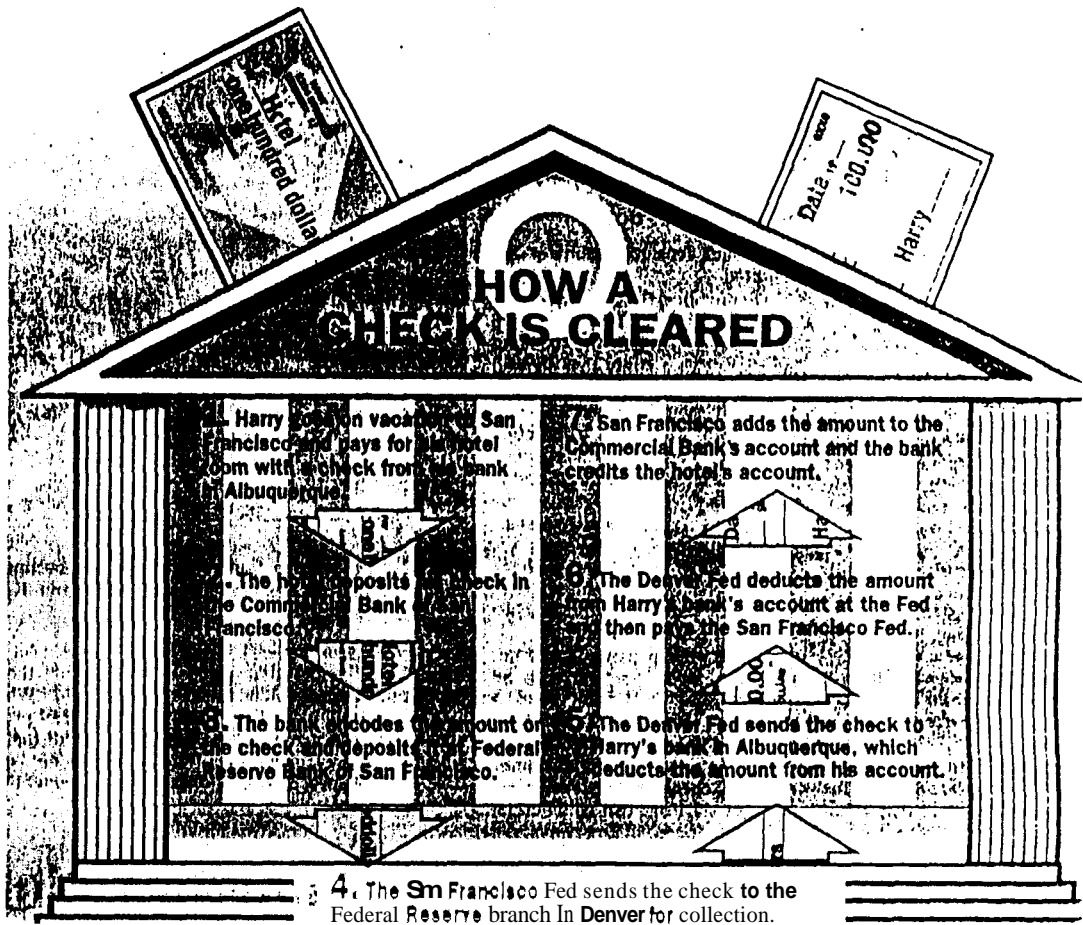


In paper we trust

*Banks are urging
customers to make
electronic
transactions, but
Americans are
writing more
checks than ever*



By JIM JORDAN
Knight Ridder Newspapers

A strange thing happened on the way to the checkless society: We forgot where we were going.

Year after year, Americans set new records for writing paper checks despite decades of campaigning by bankers who want to cut costs by promoting credit cards, debit cards, direct deposit and other forms of electronic banking.

Bankers say it over and over: Checks are expensive to print, to write, to mail and to process.

But customers like the paper record a check creates. They like the control checks give them over when money is withdrawn. And they like the "float" — the added interest they can earn on their money while the check is in the mail.

This two- or three-day delay also allows customers to put a check in the mail before they put money in the account to cover it.

Americans wrote 42.5 billion checks in 1980 and 56.8 billion in 1990. They're projected to write 62.9 billion this year and 67.7 billion in 2005, according to The Nilson Report, a financial services newsletter.

"Check-writing is going up. It is continuing to go up and has never gone down," said John Hall, spokesman for the American

"People are very comfortable with using checks, and to switch to some other form of banking makes them uncomfortable."

DONALD J. MULLINEAUX,
UNIVERSITY OF KENTUCKY

Bankers Association.

"People are very comfortable with using checks, and to switch to some other form of banking makes them uncomfortable," said Donald J. Mullineaux, banking professor at the University of Kentucky.

"Our volume of checks continues to go up. It's something we talk about but we don't seem to be able to do anything about," said Steve Kelly, senior vice president of Central Bank & Trust Co. in Lexington, Ky.

Strong competition

But check printers had better not look back: Electronic banking is gaining on them at the speed of a Pentium chip. While the number of paper checks is expected to increase about 1 percent this year, the number of electronic transfers handled by the Federal Reserve System increases annually at double-digit rates.

The total is expected to jump 15 percent this year to about 3.5 billion transactions, said June Gates, spokeswoman for the Federal Reserve Bank of Cleveland, which

serves Eastern and Central Kentucky. That 3.5 billion does not include Visa, MasterCard and other private credit and debit cards, which also post huge gains in transactions each year.

All financial transactions are increasing because the economy is growing and everyone is simply buying more, Gates and other observers say.

"People are just flat doing more transactions of all kinds," Kelly said. "There is no end in sight."

Banks won't wait for the convenience of credit cards and other electronic payments to close the transactions gap. They offer alternatives that allow check-writers to keep some advantages of a checking account.

The most common debit cards, known as off-line cards, allow users to, in effect, keep a float of two or three days. The money to cover a transaction is reserved or frozen but not deducted from the account for a couple days.

"It's there, but it's not available to you,"

Kelly said.

A less common card, the online deducts each purchase immediately from the user's account.

In another move to make debit cards attractive, Visa, MasterCard and issuers recently put severe limits on amount of debt an owner must pay if a card is lost or stolen.

It plays in D.C.

Meanwhile, banks hope to reduce processing costs by ending the practice of returning canceled checks to customers.

Under the new approach, known as truncation, some banks reward customers with lower account fees if they accept a detailed printout of account activity instead of getting the actual checks back.

Now the federal government is moving into the act.

By Jan. 1, 1999, Washington will stop using paper checks to welfare and Social Security recipients, government supplier contractors, and millions of federal employees and retirees.

Such payments — with the exception of income tax refunds, which taxpayers elect to receive by paper — will be deducted electronically into recipients' accounts.

Checks Hot Even in Electronic Age

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The effect on check-writing is hard to predict, observers say.

While each transfer will eliminate one paper check and create one electronic transfer, the process will force some recipients to open bank accounts, which could lead them to write paper checks.

Why go electronic?

The government is taking the step for some of the same reasons banks cite.

Direct deposit is more reliable and secure than a paper check in the mail. Fewer mistakes are made because fewer people are involved, and, they argue, the process is a lot cheaper.

The U.S. Treasury makes 850 million individual payments a year and expects to save \$500 million in postage and handling in the first five years of electronic transfers.

The government says it will slash costs from 44 cents for each paper check to 2 cents for each electronic deposit.

Banks and other financial institutions say they will save 80 cents for each electronic transfer that elimi-

nates a paper check, according to the National Automated Clearing House Association.

Tough to pin down

But such lopsided estimates are disputed.

In September, the chief executive of Global Concepts Inc. in Atlanta, Allen Lipis, rattled the banking industry with a study that showed electronic transactions are more expensive than paper checks.

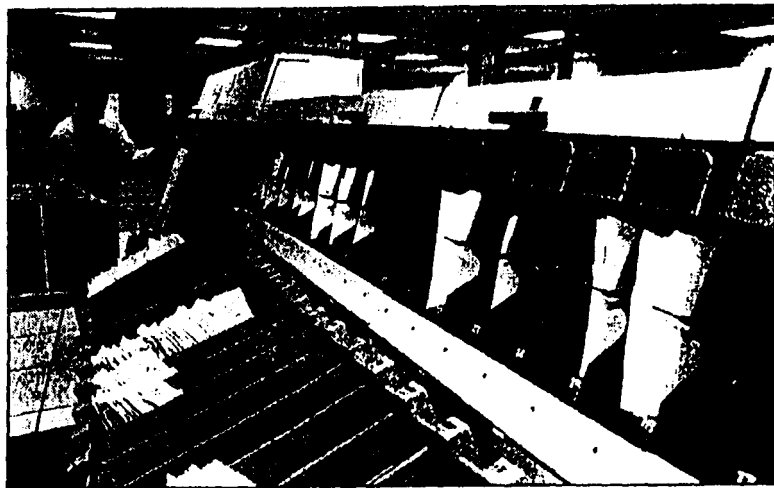
A typical electronic transaction can cost 8 cents, Lipis said, while checks often cost as little as 3 cents to process.

"It was very controversial," Mullineaux said.

The cost of processing a check depends on how many banks have to handle the paper before it reaches the writer's bank, he said.

"It's very inexpensive," for example, if a local resident with an account at a local bank gives a check to a local business. No more than two banks handle that check.

If a Lexington bank customer writes a check in San Francisco, however, at least two commercial



KNIGHT RIDDER NEWSPAPERS

PAPERWORK: Steve Combs operates the sorting machine for paper checks at Central Bank in downtown Lexington, Ky.

banks and two Federal Reserve Banks will handle that piece of paper, and the cost will be higher.

Overall, Hall said, the national check processing system works smoothly and efficiently, but the true cost of processing a check remains a mystery.

"I see a lot of numbers bandied about, but they are all estimates," Hall said. "What do you consider in the cost of processing a check? Do you count the millions of dollars in processing equipment that banks have bought? I don't have the answer."